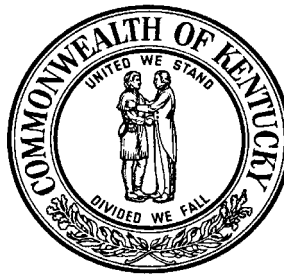


**REPORT OF THE AUDIT OF THE
SPENCER COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

May 3, 2003



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Honorable Steve Coulter, Spencer County Sheriff
Members of the Spencer County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Spencer County Sheriff's Settlement - 2002 Taxes as of May 3, 2003.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Spencer County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
SPENCER COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

May 3, 2003

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Spencer County Sheriff as of May 3, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,427,196 for the districts for 2002 taxes, retaining commissions of \$175,271 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,245,144 to the districts for 2002 Taxes. Taxes of \$3,631 are due to the districts from the Sheriff and refunds of \$24 are due to the Sheriff from the taxing districts.

Report Comment

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Kapp & Company, PLLC
Certified Public Accountants &
Business Advisors

To the People of Kentucky
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Independent Auditor's Report

We have audited the Spencer County Sheriff's Settlement - 2002 Taxes as of May 3, 2003. This tax settlement is the responsibility of the Spencer County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Spencer County Sheriff's taxes charged, credited, and paid as of May 3, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable David Jenkins, Spencer County Judge/Executive
Honorable Steve Coulter, Spencer County Sheriff
Members of the Spencer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
September 30, 2003

SPENCER COUNTY
STEVE COULTER, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

May 3, 2003

<u>Charges</u>	Special			
	<u>County Taxes</u>	<u>Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 480,897	\$ 786,466	\$ 2,342,435	\$ 698,077
Tangible Personal Property	12,998	22,997	54,065	37,891
Intangible Personal Property				19,476
Fire Protection	456			
Increases Through Exonerations	42	69	205	61
Omitted Taxes	621	979	3,016	892
Franchise Corporation	16,248	29,525	68,459	
Additional Billings	577	962	2,797	911
Bank Franchises	17,869			
Penalties	3,084	5,047	14,990	4,573
Adjusted to Sheriff's Receipt	4	142	8	109
	<hr/>	<hr/>	<hr/>	<hr/>
Gross Chargeable to Sheriff	\$ 532,796	\$ 846,187	\$ 2,485,975	\$ 761,990
	<hr/>	<hr/>	<hr/>	<hr/>
<u>Credits</u>				
Exonerations	\$ 2,036	\$ 3,478	\$ 9,820	\$ 3,269
Discounts	8,138	12,801	37,712	11,976
Delinquents:				
Real Estate	10,845	17,004	51,050	15,214
Tangible Personal Property	1,096	2,061	4,590	3,229
Uncollected Franchise	827	1,059	3,547	
	<hr/>	<hr/>	<hr/>	<hr/>
Total Credits	\$ 22,942	\$ 36,403	\$ 106,719	\$ 33,688
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Collected	\$ 509,854	\$ 809,784	\$ 2,379,256	\$ 728,302
Less: Commissions *	21,956	26,905	95,170	31,240
	<hr/>	<hr/>	<hr/>	<hr/>
Taxes Due	\$ 487,898	\$ 782,879	\$ 2,284,086	\$ 697,062
Taxes Paid	487,360	781,778	2,280,072	695,934
Refunds (Current and Prior Year)	356	585	1,728	505
	<hr/>	<hr/>	<hr/>	<hr/>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	\$ 182	\$ 516	\$ 2,286	\$ 623
	<hr/>	<hr/>	<hr/>	<hr/>

* and ** See Page 4.

The accompanying notes are an integral part of this financial statement.

SPENCER COUNTY
 STEVE COULTER, COUNTY SHERIFF
 SHERIFF'S SETTLEMENT - 2002 TAXES
 May 3, 2003
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	1,806,839
4% on	\$	2,379,256
1% on	\$	231,101

** Special Taxing Districts:

Library District	\$	95
Health District		193
Extension District		153
Soil Conservation		30
Spencer Fire District		66
Mt. Eden Fire District		(24)
Plum Creek Watershed District		3

Due Districts or (Refunds Due Sheriff)	\$	<u>516</u>
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SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS

May 3, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of May 3, 2003 the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

SPENCER COUNTY
NOTES TO FINANCIAL STATEMENTS
May 3, 2003
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 18, 2002 through May 3, 2002.

Note 4. Interest Income

The Spencer County Sheriff earned \$4,305 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office. As of September 30, 2003, the Sheriff owes \$22 in interest to the school district and \$2,084 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Spencer County Sheriff collected \$20,016 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 30, 2003, the Sheriff owes \$20,016 in 10% add-on fees to his fee account.

COMMENT AND RECOMMENDATION

SPENCER COUNTY
STEVE COULTER, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

No response given.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Kapp & Company, PLLC

Certified Public Accountants &
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To the People of Kentucky

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Honorable Steve Coulter, Spencer County Sheriff

Members of the Spencer County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Spencer County Sheriff's Settlement - 2002 Taxes as of May 3, 2003, and have issued our report thereon dated September 30, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Spencer County Sheriff's Settlement - 2002 Taxes as of May 3, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Spencer County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kapp & Company, PLLC".

Kapp & Company, PLLC

Audit fieldwork completed -
September 30, 2003

